

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0871-01
Bill No.: SB 249
Subject: Taxation and Revenue; Tax Credits; Economic Development; Urban
Redevelopment.
Type: Original
Date: February 3, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
	(Minimal)	(Minimal)	(Minimal)
Total Estimated Net Effect on General Revenue Fund	(Minimal)	(Minimal)	(Minimal)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state they do not anticipate a significant increase in the number of new credits filed. Therefore, DOR will not request additional FTE at this time.

However, if DOR is incorrect in this assumption, they will need one Tax Processing Tech I for every 10,000 additional credits claimed by this legislation. DOR will monitor the credit and if FTE are needed, the request will be made through the normal budgetary system.

DOR defers to the Department of Economic Development or the Office of Administration - Budget and Planning for a revenue impact estimate.

Officials from the **Department of Economic Development (DED)** state the following programs may be impacted by this proposal;

NEIGHBORHOOD PRESERVATION TAX CREDIT PROGRAM: (Sections 135.478, 135.481, 135.484, 135.487:

The significant changes to the program proposed in this bill that could have a fiscal impact that are not

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ASSUMPTION (continued)

based on the changing designation of a distressed community are: (1) the increase in the percentage tax credit for new construction from 15% to 20% but there remains a cap for each residence; (2) authorization of a rollover of unused credits for eligible areas to qualifying areas. Currently, \$8 million in credits is set aside for each type of area. In 2001 and 2002 calendar years, all \$8 million for qualifying areas was authorized, but of the \$8 million for eligible areas, approximately \$4 million and \$7 million were authorized respectively. In the initial fiscal note response when this program was enacted, DED responded that the program would cost up to an estimated \$16 million per year – based on the cap. If that is the “baseline”, then the changes proposed to the Neighborhood Preservation Program by this bill are no impact. If the “baseline” is actual amounts projected to be issued and redeemed, it is notable that at this time, DED projects the authorization of the full \$16 million in Neighborhood Preservation tax credits for Calendar Year 2003 and thereafter (corresponding to FY 2004 and thereafter). Based upon this methodology, DED’s response of “no impact” remains the same because we are already projecting full authorization of the \$16 million of the annual cap for this program.

DISTRESSED COMMUNITIES DESIGNATION: 135.530:

Based upon preliminary data, the changes proposed by this bill would increase the number of census block groups in metropolitan statistical areas that would be designated as “distressed communities.” It would also allow certain portions of metropolitan enterprise zones to also be designated as “distressed communities.” Several active programs are affected by the “distressed communities” designation as follows:

Rebuilding Communities Tax Credit Program (135.535, RSMo) – only businesses in distressed communities qualify for this credit. In DED’s fiscal note response to this bill when enacted (HB 1656, 1999) DED projected a cost of \$10 million annually – the cap on the program. If that fiscal note response is the baseline, then this bill will have no fiscal impact. If the baseline is actual amounts projected to be issued and redeemed, this program has never authorized or issued \$10 million in credits in any year. In FY 2002 DED authorized approximately \$5.5 million in credits, and approximately \$3.4 million in credits were redeemed. For FY 2004, DED projects \$6.25 million issued and \$5 million redeemed. Accordingly, the effect of this change could increase the authorized amounts anywhere from \$0 to \$3.75 million with a corresponding increase in projected credits redeemed of \$0 to \$3 million.

Transportation Development Tax Credit Program (135.545, RSMo) – only transportation projects in distressed communities qualify for this credit. In DED’s fiscal note response to this bill when enacted (HB 1656, 1999) DED projected a cost of \$10 million annually – the cap on the program. If that fiscal

ASSUMPTION (continued)

note response is the baseline, then this bill will have no fiscal impact. If the baseline is actual amounts projected to be issued and redeemed, this program has never authorized or issued \$10 million in credits in any year. In FY 2002 DED authorized approximately \$15,000 in credits, and approximately \$850,000 in credits were redeemed. For FY 2004, DED projects \$7.7 million issued and \$5.87 million redeemed. Accordingly, the effect of this change could increase the authorized amounts anywhere from \$0 to \$2.3 million with a corresponding increase in projected credits redeemed of \$0 to \$2.185 million.

Skills Development Tax Credit (a.k.a. individual training account 620.1400 – 620.1460, RSMo) - only projects in distressed communities qualify for this credit. In DED's fiscal note response to this bill when enacted (HB 1656, 1999) DED projected a cost of \$6 million annually – the cap on the program. If that fiscal note response is the baseline, then this bill will have no fiscal impact. If the baseline is actual amounts projected to be issued and redeemed, this program has never authorized or issued any credits in any year. For FY 2004, DED projects \$10,000 issued and \$5,000 redeemed. Accordingly, the effect of this change could increase the authorized amounts anywhere from \$0 to \$5.9 million with a corresponding increase in projected credits redeemed of \$0 to \$2.95 million. Because of the lack of participation in this program, DED would not expect the addition of geographic areas to turn the program around such that the costs would more likely be minimal rather than the larger \$2.95 million.

Neighborhood Preservation Program (135.475 - 135.487, RSMo) - The “qualifying areas” include areas designated as distressed communities. Regardless of whether the baseline is the original fiscal note or actual use, the change in designation would have no fiscal impact on this program because DED have always authorized the full \$8 million in credits set aside for qualifying areas.

New/Expanding Business Facility Tax Credit Program (135.100 – 135.150, RSMo) - Businesses in distressed communities under this program can receive a slightly larger tax credit amount for jobs and investment. This program is non-discretionary and is not capped. DED did not detect an increase attributable to this provision for distressed communities since the bill was effective in 1999. DED does not anticipate that the existence of more distressed communities in metro areas will correspond with a notable increase in the cost of this program and therefore project a zero fiscal impact as regards this program.

Other programs affected by the Distressed Community designation are either inactive or are discretionary programs where the cost is predictable and the change in designation should have no fiscal impact.

ASSUMPTION (continued)

Oversight assumes the changes made to the Neighborhood Preservation tax credit program will not change the annual cap of \$16 million, or \$8 million each for the qualifying areas and the eligible areas. The fiscal note prepared for the enabling legislation for this program reflected a loss of state funds of \$0 to (\$16 million) annually starting in FY 2001. Therefore, while this proposal may result in an increased utilization of the Neighborhood Preservation tax credit program, Oversight assumes the cap on the program has not changed from the \$16 million reflected in the fiscal note for SB 20 in 1999, and therefore, assume no additional fiscal impact from the changes in this program.

The proposal also changes the definition of “distressed communities” in Section 135.530. This definition is used by various programs under DED, including CAPCO, Tax Credit for Contributions to Innovation Centers, Credit for New or Expanded Business Facilities as well as others. While some of these programs are capped, the New or Expanding Business Facility tax credit is not capped. A business in a newly created distressed community would be allowed a larger tax credit for expanding an existing business or creating a new business facility than they would if they were not in the newly defined distressed community. Companies not in a distressed communities are allowed the credit, but at a lower per-employee and per-capital rate. With DED’s assumption that expanding the definition of distressed communities would have no impact (or certainly negligible) on the amount of tax credits utilized, **Oversight** assumes this proposal would have a minimal fiscal impact on the General Revenue Fund.

Oversight assumes this proposal may result in the increased utilization of some of the various tax credit programs that use the definition of distressed communities, however, many of the programs are capped, therefore, Oversight has already reflected the potential losses to the General Revenue fund in previous fiscal notes.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Loss</u> - Expansion of definition of "distressed community"	<u>(Minimal)</u>	<u>(Minimal)</u>	<u>(Minimal)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(Minimal)</u>	<u>(Minimal)</u>	<u>(Minimal)</u>

FISCAL IMPACT - Local Government

FY 2004
(10 Mo.)

FY 2005

FY 2006

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit may be fiscally impacted by this legislation.

DESCRIPTION

This proposal makes various changes to the law concerning economic development of distressed communities.

The proposal expands the definition of a "distressed community" in the law relating to tax credits for investment in or relocating a business to a distressed community. A distressed community will include areas within metropolitan statistical areas that are designated as either a federal empowerment zone, a federal enhanced enterprise community, or state enterprise zones designated prior to January 1, 1986, but will not include the expansion of those zones done after March 16, 1988.

The proposal also modifies provisions of the Rebuilding Communities and Neighborhood Preservation Act, in that it: (1) Expands the definition of "eligible residence" to include certain condominiums, entire apartment buildings, or single apartments within an apartment building; (2) Expands the definition of "new residence" to include separate adjacent single-family units; (3) Expands the definition of "project" to include the new construction, rehabilitation, or substantial rehabilitation of multiple residences, whether comprised of one structure containing multiple single-family residences (e.g., an apartment building) or multiple individual structures (e.g., townhouses or individual homes), in addition to single residences; (4) Corrects the definition of "qualifying residence" so that it accurately references census blocks groups within metropolitan statistical areas; (5) Clarifies the term "nonmetropolitan statistical area" as any county not located in a metropolitan statistical area; (6) Limits the tax credits available for the rehabilitation and construction of residences in distressed communities and census blocks to \$1.5 million for projects commenced after August 28, 2002. Under current law, of the \$16 million in community improvement tax credits allowed, \$8 million are to be allocated for "eligible residence" programs and \$8 million for "qualifying residence" programs; the proposal provides that if, by October 1 of the calendar year, the Director of the Department of Economic Development has issued all \$8

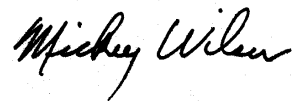
DESCRIPTION (continued)

million of the credits allowed for one of these programs and has not issued the entire \$8 million allowance for the other program, the director is required to reallocate 70% of any unused tax credits from the program which has not reached its \$8 million cap to the one which has; the reallocated credits will be given to taxpayers who have applied for, but have not received, tax credits in that same year and who are engaged in projects in the area where the tax credit cap has been met for that same year; the maximum reallocated tax credit for any project may not exceed \$500,000; (7) Increases the value of the "eligible residence" tax credit from 15% of eligible costs up to \$25,000 to 20% of eligible costs up to \$40,000 but does not raise the annual cap for this tax credit; (8) Increases the value of the "qualifying residence" tax credit from 15% of eligible costs up to \$40,000 to 20% of eligible costs, up to \$40,000, but does not raise the annual cap for this tax credit; and (9) Allows one application for tax credits to be submitted to the department for preliminary approval in the case of projects involving the new construction, rehabilitation, or substantial rehabilitation of more than one residence; tax credits will be awarded upon final approval of an application and presentation of acceptable proof that substantial construction of each individual residence has been completed, rather than delaying issuance of the tax credits until the entire project is substantially complete.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue



Mickey Wilson, CPA
Director
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